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Product Brief

Distilled Spirits Market

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Report Highlights:

The distilled spirits market in Bulgaria has undergone dynamic changes over the recent years. Currently, market and imports are growing in value, and diversifying in types of spirits and brands. Market opportunities are especially good for U.S. whiskey brands. Still, issues like illegal trade, weak legal enforcement, and trade preferences given to EU member states are among the major challenges to U.S. distilled spirits.

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Market Overview	3
Consumption	4
Illegal trade and counterfeit distilled spirits	6
Government Regulations	8
Supply	9
Production Volume	9
Structure of local production.....	9
Production Policy.....	10
Key Market Players	11
On-farm distilled spirits production and trade.....	12
Trade	13
Prices.....	13
Whisky	14
Vodka	14
Imports	15
Import Requirements	15
Import Duties and Trade Agreements	15
Tariff Rate Quotas.....	17
Structure and trends	17
Exports	20
Advantages and Challenges to the U.S. Distilled Spirits in Bulgaria	20
Distribution and Marketing	21
Promotion and Advertisement	21
Distribution	22

The information in this report is based on a market study done by the Bulgarian consulting company "Noema" per a contract with USDA/FAS office in Sofia.

Market Overview

Over the last 5 years, the retail and food service sectors in Bulgaria have undergone dynamic changes. The penetration of many new players, especially foreign companies, increased investment in manufacturing and trade, and the growth in the tourist industry, all contributed to expanded and growing distilled spirits market.

In 2004, the number of HRI outlets has doubled compared to 1999 (from 29,000 in 1999 to 55,000 in 2004). A number of cafeterias, pizza restaurants, night clubs, and various style restaurants have mushroomed, first in the capitol of Sofia, followed by winter and summer tourist resorts, and in the countryside. Several foreign hypermarket/supermarket chains (the German Metro and Hit, the Austrian Billa, the Turkish Ramstore, German Kaufland/planned opening 2005, Estonian VP supermarket chain/also planned entry in 2005 etc.) have opened outlets in larger cities, changing both the patterns of customer's habits and retail food trade, in general. Local retail outlets were therefore forced to compete by better quality of products and services.

Since 2000, the market of distilled spirits has experienced several trends:

1. The size of the market is growing in value as the demand for more expensive type of blends, both locally manufactured and especially, imported distilled spirits has increased;
2. Still, the dominating share on the local market is occupied by locally manufactured distilled spirits. The share of imported distilled spirits is estimated at 5 percent of total market (including on-farm distilled spirits consumption) and at 10 percent of commercial spirits market;
3. Although the share of imported distilled spirits is not significant yet, since 2003, imports of distilled spirits have grown both in volume and in value. This gradual increase trend is expected to continue until 2007;

In the period 2005-2007, the following trends are forecast for the distilled spirits market:

- It is expected that the EU membership will diminish consumption of on-farm distilled spirits, thus the size of commercial market of distilled spirits will increase. It is expected that this increase in size will be valid mainly for low-end (cheaper) distilled spirits, both locally made and imported.
- Growth in the tourist industry will contribute to an increase in the size of the commercial market, especially to higher consumption of imported distilled spirits.
- Current policy in gradual increase of the excise tax for locally made distilled spirits and expected reduction in import tariffs will make local spirits less competitive in price compared to imported spirits, thus consumers are expected to shift towards imported distilled spirits due to insignificant price difference but better quality and "image".
- There is a clear trend of increase in *whisky* consumption, currently more for Irish brands. This trend is expected to continue in the near future with an expansion of trendy whiskey brands;

- One of the most popular distilled spirits, *vodka and gin*, have a tendency to be substituted by rum, tequila. The same trend is observed with rakia and anisette.
- “Ready-to-drink” distilled spirits (Smirnoff ice, Bacardy Breezer) are relatively new on the market and are estimated to have a good perspective due to currently growing consumer preference towards drinks with lower alcohol content. This trend is especially dynamic for younger generation.

After 2007 when Bulgaria is expected to join the EU, experts and market players forecast a sharp growth in imported distilled spirits consumption (and imports) due to several reasons:

1. introduction of new policy/regulations (especially re excise taxes and import tariffs) which will make imported brands more competitive in the Bulgarian market compared to locally manufactured distilled spirits.
2. consumer preferences development: imported are preferred vs. locally manufactured with the exception of the local “rakia”;
3. expected higher purchasing power due to steadily increasing consumer income which will permit the purchase of a premium, imported spirits;
4. currently expanding middle class, a typical consumer of imported distilled spirits;
5. better marketing of imported distilled spirits, such as promotion, advertising, etc.

Consumption

Commercial alcohol market structure (consumption) is as follows:

- In volume, beer has the largest share on the national alcohol market – about 60 percent. Distilled spirits hold about 12 percent, and wine accounts for 28 percent.
- In value, distilled spirits are leading with 46 percent; followed by beer, 33 percent; and wine, 21 percent.

Within the distilled spirits commercial consumption (local and imported), total size of 35,100,000 liters (up to 40,000,000 liters, according to some other sources), the share of different types of spirits is as follows:

Rakia - 44%; vodka – 21%;
whiskey – 12%; anisette-7%;
gin-6.0%; tequila – 2%; other – 8%

General trends in distilled spirits consumption patterns are as follows:

- Locally manufactured distilled spirits (both industrial and home made) are usually consumed at home, while imported distilled spirits are more often consumed at HRI outlets.
- In volume, consumption of Bulgarian distilled spirits is distributed in ratio 70 to 30 in favor of at-home consumption;

- In volume, consumption of imported distilled spirits is distributed in ratio 40 to 60 percent in favor of HRI consumption.

Consumers profile:

- A NOEMA survey shows that about 57 percent of all adults aged 18 years and over in Bulgaria consume distilled spirits. Two thirds of all distilled spirits consumers are male, aged up to 55 years, living in urban areas;
- Typical HRI consumer is a young person aged up to 34 years, living in Sofia or district center city, with average or higher than the average for the country income.
- Typical at-home consumer is aged over 45 years, living in small urban or rural areas, with average or lower than the average income.
- Typical consumers of imported vodka: more male than female; age up to 35 years; living mainly in the capital and other large cities. Vodka is the usual start up for younger generation and their first alcohol drink in life (due to lower price, neutral in taste and flavor compared to whiskey).
- Typical consumers of imported whiskey: mainly male, age up to 45 years, living in the capital or large urban areas;
- Typical consumers of imported gin: even and equal consumption for male and female, age between 26 and 45 years, living mainly in the capital;
- Typical consumers of tequila: mainly male (80%), age up to 30 years, mainly in the capital and other large urban areas;
- Typical consumer of liqueur: mainly female, age up to 40, living in the capital or large urban areas. Liqueur is consumed mainly at HRI outlets.

Frequency and amount of drinking; preferred types of distilled spirits:

- The average size per consumption (drinking) is between 80 and 100 milliliters. Consumption of local distilled spirits per a drinking is higher compared to this of imported spirits (over 10 milliliters more on the average);
- Consumption of local distilled spirits is more frequent vs. imported: at least once per week on average compared to once a month on average for imported distilled spirits.
- The highest is the market penetration for rakia, followed by vodka. Whisky comes on the third place, and anisette – on the fourth place.

Penetration of different types of alcohol among spirits consumers

?ype of distilled alcohol	Penetration In %	Average consumption per drinking In milliliters
Home-made rakia	69.4	105
Industry-made rakia	43.7	120

Bulgarian whisky	8.7	85
Scotch whisky	17.5	90
Irish whisky	8.2	85
U.S. whisky	7.3	90
Bulgarian gin	12.1	90
Imported gin	9.2	90
Bulgarian vodka	34.7	115
Imported vodka	19.1	110
Bulgarian anisette	15.6	115
Imported anisette	3.3	100
Bulgarian cognac	7.2	85
Imported cognac	4.6	75
Bulgarian mint	6.9	115
Imported mint	1.3	85
Bulgarian rum	3.6	90
Imported rum	2.7	105
Source: NOEMA survey, October 2004		

In general, the brand name is not yet among the key purchasing factors. Spirits are often chosen by type of product instead of by brand. The average consumer is still very price sensitive regarding his/her choice, especially when consuming locally manufactured distilled spirits, and less with imported distilled spirits.

The consumer behavior and attitude of younger people living in larger urban settlements is different. They are more brand oriented, and more often prefer imported than Bulgarian alcohol. Younger generation prefers imported distilled spirits, however, they consume more frequently Bulgarian manufactured distilled spirits, mainly due to their still low income and price considerations. This trend is expected to grow steadily in coming years. Thus, due to increasing average consumer income for younger generation, it is forecast that the price competitiveness of local spirits will not be a determining factor in their choice in the near future.

Illegal trade and counterfeit distilled spirits

According to the majority of market players, there are several types of illegal trade or counterfeit problems they face today (see below). The lack of rule of law; weak legislation/regulations implementation; corruption and inefficiency of the current judicial system are the major reasons for these issues.

- Production, distribution and consumption of counterfeit distilled spirits. This includes both well established locally manufactured brands as well as more popular imported brands;

The history of counterfeit spirits started in 1992. Until 1995/96, counterfeit distilled spirits accounted for nearly 50 percent of the market, most of it imported. In 1997-1999, the share

of counterfeit spirits declined to 30 percent, mainly imported products. By 2000, the market of counterfeit spirits has shrunk significantly to 10 percent. As of 2004, according to industry estimates, this share of counterfeit spirits to total spirits imports remains around 10 percent. If the counterfeit of local brands is added, total share of all counterfeit spirits (local and imported) is estimated at 3 percent of total commercial alcohol spirits market.

Today, counterfeit of more popular distilled spirits brands still exists – more often in the countryside than in the capital; and more frequently in the HRI sector than at the retail outlets. Usually, counterfeit spirits are made for the “best sellers”: the most popular and more expensive imported distilled spirits.

The issue with counterfeit spirits not only negatively affected the legitimate importers and distributors, but had also ruined consumers’ confidence and loyalty to certain brands. Despite the diminishing share and role of counterfeit spirits on the market, consumers are still cautious about making the “right” choice. This change in consumer behavior forced most consumers, especially middle and high income, to do their shopping primarily at well known supermarket chains or at specialized retail alcohol shops. Most retail industry and HRI players made significant efforts to not allow counterfeit spirits sales.

- Illegal trade or smuggling of legally produced distilled spirits at foreign countries. In this case, imports are executed by unauthorized by the foreign producer/trader companies, often along with non-payment/under-payment of due excise taxes/duties etc.

At end-2003, experts estimated this type of illegal sales to account at 30-35 percent of total distilled spirits imports. According to a local NGO (Coalition 2000), the estimated loss for the state from non-paid taxes in this business is 4.5 million BGN (\$3.0 million), and the loss for legitimate distilled spirits traders is \$2.0 million.

- Legal imports (payment of all due taxes) of legally produced abroad distilled spirits, however, imports are executed by unauthorized by the foreign producer/trader. Bulgarian companies i.e. they violate business rules. This is so-called “parallel” imports.

Distilled spirits are often purchased either at Duty Free Shops or at wholesale stores abroad. Sometimes, import duty and V.A.T. are not fully paid. Distilled spirits imported this way after the price of authorized importers since the prices do not include the promotion, advertising and distribution fees. There have been cases, when distilled spirits imported this way were found to be counterfeit (but produced outside of Bulgaria). Such type of “parallel imports” were very active in 2001 due to political changes (elections in 2001); and after the three major players established their import supply channels (origins, brands etc.) and local distribution. Typical “parallel” importers are owners of wholesale storage facilities and/or night clubs, often associated with criminal groups.

- Illegal market for trade in “second hand” excise labels.

There is a “market” or a supply/demand of already used excise labels which have been traded at a price of 0.20 BGN (\$0.13) to traders (importers and manufacturers) who are dealers of smuggled imported distilled spirits, or illegally manufactured spirits in Bulgaria. This issue, in general, has a more negative effect on locally manufactured distilled spirits.

- Illegal imports in small quantities of distilled spirits in border regions (especially along Greek and Turkish border), or so-called “suitcase” trade.

Due to high unemployment and rather poor Customs control, many unemployed people in border regions cross border regularly several times a day and bring a "suitcase" of distilled spirits (far exceeding legally allowed quantity for personal use, one liter) without payment of due amounts. These spirits are then marketed in villages and small towns in border regions.

Another issue contributing to illegal trade of distilled spirits was the new investment by two of the major manufacturers in spirit distilleries. Prior to 2001, local distilled spirits producers were completely dependant on imports of spirit (ethyl alcohol) – mainly from Russia and Ukraine (Bulgaria did not have any local manufacturer). Since 2001, two large players opened own spirit distilleries, and started to supply the other manufacturers as well. Imports of spirit since that time have sharply declined. It has been estimated that a significant portion of locally produced spirit is not officially recorded (i.e no taxes are paid, no production or sales are registered), and thus, all distilled spirits manufactured from it, either by the above two players or by buyers of this spirit, are also not officially reported, i.e. they are illegally produced and sold. This type of illegally manufactured distilled spirits was estimated at 30 percent of the market in 2003, and at 15 percent in 2004 (due to new excise label policies since the middle of 2003).

Government Regulations

In 2002-2005, the Government of Bulgaria (GOB) has harmonized all major laws and regulations, including the trade regime with those of the EU. Often, these regulations were not in favor of U.S. suppliers and traders.

In general, GOB policy towards distilled spirits market has focused on several major issues:

- to increase collection of due taxes such as excise taxes, thus indirectly to curb illegal production and trade (for example, in 2004, the change in the model of excise labels (more difficult to be counterfeit), as well as the new registration procedure for all excise label spirits;
- an introduction of a new set of regulations and rules regarding the packaging and identification of distilled spirits, both imported and locally made (in 2003 and 2004);

In 2003, GOB passed a new regulation on packaging and bottle size of distilled spirits. Only bottles of 0.7, 1.0 and 1.5 liters were allowed to be sold on the market. Plastic bottles (size of over 200 g) and without due labels (according to the GOB label requirements) were not allowed for sales (see the regulation below). The new regulations negatively affected some U.S. exporters who were trading in bottles of 0.75 liters, a size not allowed for trade any longer.

Bulk distilled spirits sales (wholesale and retail) were also banned in 2003 (changes in the Law for wine and spirits, published in the Official Gazette #16/2004). According to art.44a (1), sales of bulk or non-bottled spirits were banned (with the exception of sales between registered producers of spirits/ art.44a (2). The same article 44a(3)(4) banned packaging/bottling and sales of spirits in plastic bottles with the exception of bottles up to 0.2 liters.

Bulk purchases are preferred by HRI outlets for convenience, and due to lower prices. The reason for introduction of this ban was mass sales of bulk distilled spirits without excise labels. However, as of 2004, according to some traders, bulk sales without payment of excise taxes are still about 30 percent of the market.

- efforts were put to strengthen Customs control on imports of distilled spirits. These efforts, however, were initiated under the industry pressure. Illegal imports forced the legitimate companies to initiate also court trials against illegal importers based on the IPR legislation.

Supply

Production Volume

Official statistical data for 2000-2003 (source: Ministry of Economy) shows a fluctuating trend of declining distilled spirits production. According to official data, there is a decrease of 40 percent in 2003 compared to 2002. However, most experts think this official data is not reliable due to a significant share of the "gray" market. Noema research shows an estimated production volume of commercial production (excluding on-farm) in 2000 at 50 million liters, and 35 million liters in 2003 and 2004, or a decline of about 30 percent in recent years.

This trend in production is a result of increased competition from wine and beer. This is especially obvious with wine due to elimination of excise taxes for wine at the beginning of 2003. Thus, local wine prices became comparable to those of distilled spirits. As a result, supermarkets significantly expanded shelf space for wine, and started actively wine brands communication. At the same time, the excise tax on distilled spirits increased 30 percent to reach 0.05 BGN (\$0.033) per an alcoholic degree.

Another reason for a decline in production is higher demand for cocktail drinks. This reduced the HRI sector demand in terms of volume of locally made distilled spirits; and also increased the demand for imported distilled spirits, especially vodka, gin, whiskey, and rum.

During the above period, on-farm brandy production also shows a similar trend of reduction.

Structure of local production

Currently, rakia (local traditional brandy) and vodka are the two leading products among locally produced distilled spirits. They account for 60 percent in total production in 2003 (in volume). Vodka itself holds 32.6 percent share in total distilled spirits production in 2003. In recent years, the share of locally produced vodka has expanded on the expense of rakia.

Rakia production: The most stable is the production of grape rakia (about 8 million liters, 2001-2003), while production of marc and fruit rakia has been declining. Estimates for 2004 confirm the same trend in production of the major types of rakia.

Due to popularity/good sales of rakia, all large producers offer several types and brands each. For example, Vinprom Targoviste/distillery: Targoviste Regular, Targoviste Muskat, Targoviste Plum, Targoviste Seasoned, Targoviste Seasoned Muskat, Targoviste Seasoned Grape; Peshtera distillery, as follows: Peshterska Regular, Peshterska Seasoned, Peshterska Muskat, Peshterska Special. The brand Karnobat of SIS Industries is offered in three types: Karnobatska Regular, Karnobatska Seasoned and Karnobatska Muskat. Other popular brands are Biserna, Burgaska, Slivenska Perla, Sungurlarska, Troyanska.

Vodka production: Since 2001, production of vodka has been higher in volume share than rakia. A number of new local brands have emerged: Select +, Doctor's, Savoy Club, Flirt, MacCoy.

In 2003/2004, larger manufacturers started to expand their production lists with local brands of gin and whiskey. This trend continues today with new brands expected on the market in 2005/2006.

Production Policy

In general, the GOB priority is to support locally wine industry. For this reason, since 2002-2003, a set of new regulations and policies were introduced to stimulate planting of vineyards, wine manufacturing, local sales and exports. Most of these policies were accompanied by financial programs focused on production of higher quality and more competitive wines.

A problem of present legislation is the equal treatment of wine and distilled spirits by one law, the Law for Wine and Spirits. So far, this law did not make a distinction in requirements for production facilities. Most manufacturers use one and the same facility for both production of distilled spirits and wine. According to newly introduced EU requirements, production facilities for wine should be separated from the ones for distilled spirits. Experts estimate that Bulgarian producers should invest between 2 and 3 million EUR to build and equip separate facilities (wine vs. distilled spirits).

Excise taxes: From 2005 (Excise Taxes Act, art.4/3, Official Gazette #113/2004, in effect since January 1, 2005), the excise tax on distilled spirits is based on a hectoliter pure alcohol content measured at 20 degree Celsius (hpa) due to the EU law harmonization (vs. the previous system when the excise taxes were based on the alcohol degrees per liter). The excise tax for raw materials which contain alcohol is calculated in absolute amount in local currency/leva per each alcohol degree (art.4/5). In case, distilled spirits or other alcohol spirits are produced from these raw materials, the excise tax is calculated based on the previous method described in art.4/3 or per hpa.

Upon imports, the excise tax is paid as a percent calculated on the customs value of the product increased with all other due customs import duties and fees (art.13/b). Customs authorities are in charge of calculating the due excise tax and for its collection.

In 2005, the excise tax for distilled spirits is set at 750 leva (\$500) per hpa (according to the above legislation). In 2006, the excise tax is expected to be about 710 USD per hpa. According to the Ministry of Finance/Customs, "distilled spirits" are all products in HS#2208 with alcohol content in volume above 1.2% vol, as well as products under HS# 2204, 2005 and 2206 with actual alcohol content in volume exceeding 22% vol, destined for consumption and with specific taste characteristics.

Annual increase in the excise tax will contribute to higher prices, and the value growth will continue.

Trade marks: A new administrative procedure for approval of geographic names of distilled spirits (rakia, wine brandy, anisette, liqueur) was developed in 2004. Approval is given by the Ministry of Economy. Until now, several geographic names for distilled spirits are approved for Bulgaria, as follows: Shumenska, Sungurlarska, Slivenska, Veliki Preslav, Karnobatska.

In the context of EU membership negotiations, Bulgaria claims for a recognition, acknowledgement and defense of two product names: "rakia" and "anisette". It is not clear yet if these two names will be recognized by the EU.

Production volume of different types of distilled spirits in thousand liters

Types/Years	2000	2001	2002	2003
Grape rakia	11 960	8 220	8 805	7 704
Marc(white) rakia	295	248	348	50
Fruit rakia	1 002	2 207	807	185
Vodka	9 754	10 860	16 482	8 718
Gin	1 114	1 686	1 240	1 170
Anisette	4 287	5 034	2 740	1 363
Other distilled spirits	19 187	11 876	13 207	7 584
Total	47 599	40 130	43 631	26 775

Source: MinEconomy

Key Market Players

About 150 companies are licensed for production of distilled spirits in Bulgaria. Majority of them are Bulgarian and produce both wine and distilled spirits at the same production facilities.

Three market leaders form over 60 percent of the local distilled spirits market: Peshtera, SIS Industries and Vinprom Targoviste.

"Peshtera" was founded in 1939. Production facilities include: a fermentation capacity for 3,000 tones, receiving bins capacity of 500 tones per day, total capacity of wine storage facilities of 14 million liters. The company disposes of two distilleries and owns a laboratory for quality control. Production range includes: rakia (five brands), vodka (two brands), brandy, mastic brandy cocktails, crème de menthe, crème de menthe cocktails, gin, whisky.

"Targoviste" has four bottling lines with capacity of 16 thousand bottles per hour, and capabilities of adaptation of 20 million kg grapes annually. Product range includes: red wines, white wines, sparkling wines, vermouths, grape brandy, gin.

"SIS Industries" was established in 1993. In partnership with UTO Netherlands, the company produces over 40 types of spirits. Since 2001, the company invested in a distillery for processing of a fructose syrup into spirit. Product range includes: vodka, gin, whisky, rum, brandy, anisette, tequila, bourbon, 6 brands of rakia.

Top Bulgaria spirit producing companies annual sales in thousand USD

Company Name	2001	2002	2003
Pershtera	15 094	20 262	n/a
Targoviste	10 905	9 517	n/a
SIS Industries	9 422	9 310	10 694
Black Sea Gold, Pomorie	9 602	9 484	n/a
Vini Sliven	4 073	11 068	n/a
Vinex Slavjantzi	10 338	8 724	7 920
Vinkom Bourgas	10 307	8 693	n/a
Sinhron Invest	4 656	2 256	2 486
Snait	3 981	3 743	n/a
V.A.C. Sofia	6 676	n/a	3 145

Source: Ministry of Finance

On-farm distilled spirits production and trade

Background: Home (on-farm) production of rakia (local brandy) is a traditional practice for rural households and small urban area residents. Production is destined for own household use and for close relatives or families living in smaller towns. As a result, one of two households in the villages, one of three households in small towns, and one of four households in larger cities consume on-farm made rakia. The capital of Sofia is an exception: one of twenty families consume home made rakia.

Production: There is no official statistics about the volume of on-farm rakia production. According to the National Vine and Wine Chamber, it exceeds the production of licensed commercial companies. The Chamber reported that in 2001, 400 million kg of grapes have been purchased, of which 145 million kg (36 percent) were processed by the licensed commercial companies, and the rest was used for on-farm rakia manufacturing. A national survey of NOEMA Market Research Agency (October 2004) showed that one third (30.7) of all households (2.8 million) in Bulgaria produced rakia for their own consumption. The average quantity produced per a household was 35 liters, so total amount of on-farm rakia production in 2004 was estimated at 22 million liters (according to the National Wine and Vine Chamber, the annual production is 50 million liters).

According to the same research, total distilled spirits production in 2004 was 57 million liters, of which 34 million liters or 59 percent was rakia production and 23 million liters or 41 percent were other types of distilled spirits (vodka, gin, whiskey etc.). Thus, home made rakia accounted for 64 percent of total rakia production and 38 percent of total distilled spirits production.

In general, on-farm rakia production has slightly declined over the last 5 years due to its substitution with cheaper commercially sold rakia brands; and due to the fact that an increasing share of grape harvest is destined for commercial processing vs. on-farm use.

Trade: Part of the home made rakia is directed to illegal sales. It is sold either to neighbor households, among villagers or in small HRI outlets in rural areas, more rarely in small towns. These illegal sales as well as on-farm consumption, however, exercise a significant pressure on the commercial market. This is especially valid for low and middle income rural consumers who purchase commercially more rarely, thus shrinking the market for commercial sales. Both local production and imports of certain low-end brands are suffering from these practices.

GOB Regulations: Due to above described negative effect on the market and in line with the EU regulations and practices, in 2003, the Ministry of Economy has initiated a registration of family rakia production units (often one distillery per a village). In addition, families whose on-farm production exceeds 13 liters per year had to declare the quantity of distilled alcohol as well as ownership on the raw materials from which alcohol was produced (grapes or fruits). The National Vine and Wine Chamber went further suggesting a new clause in the Law of Wine and Spirits, according to which every family to be obliged to declare its on-farm production regardless of the quantity. According to the current Excise Law, on-farm production up to 30 liters (or 2000 alcoholic degree) is free of excise taxes until 2007. As of today, however, many family/village production units are not registered, and most village families do not fill required declarations. It seems that the GOB does not have enough good will to implement these regulations, mainly to political or "populist" reasons.

Trade

Requirements for commercial sales of alcohol are defined in the Law of Wine and Spirits.

Labeling: Obligatory requirements for labeling of distilled spirits exist. The label should include: Drink trade name; Nominal volume; Actual alcoholic content; the registration number of the production lot; Producer's name; status and location of the headquarter; Bottling company's name; status and location of the headquarter; Importing company; status and location of the headquarter; Country of origin; the registration number of producer's license.

Licenses: Until 2003, retail and HRI outlets needed a license for sale of distilled spirits issued by the municipality. Since 2004, no license is needed.

Prices

Wholesale price analysis shows that all Bulgarian products are in lower price segment.

The difference between prices of Bulgarian and imported products is significant (November 2004, in USD/liter), as follows:

- Brandy: Proportion in the wholesale prices between Bulgarian and imported brandy reaches 10 : 1 in favor of imported brands;
- Vodka: Bulgarian brands of vodka are offered at a price range between 1.94 USD and 3.87 USD. Imported brands in the higher prices segment (Finlandia, Absolut, Smirnoff) range from 7.10 USD to 10.97 USD;
- Rakia: Bulgarian rakia has the highest diversity in prices and grades. Products in three price categories are offered on the market:
 - The low category prices are up to 2.58 USD,
 - Middle price category is from 3.23 USD to 6.45 USD,
 - High price category is above 6.45 USD,
 - Prices of premium series reach 32.26 USD.Imported rakia - Rakia Jeny, Rakia Tekirda - is in the high price category.
- Rum: Imported brands like Bacardi, Captain Morgan, Havana Club are at prices above 13.00 USD. There is no local production;
- Anisette: Bulgarian anisette is several times cheaper vs. imported. Anisette Peshtera and Anisette Karnobat are sold at prices from 1.94 USD to 2.58 USD. Imported brands of anisette – Ricard, Pernot, Ouso Pilivas, Ouso Tsantali, Ouso Plomari – are offered at prices from 5.16 USD to 14.19 USD.
- Gin: Bulgarian gin brands – MacCoy, Savoy, Sixth Sense, Targoviste – have wholesale prices about 2.58 USD. Imported brands like Gordon's London Dry Gin, Beefeater Gin, Plimouth Gin, Seagram's are about four times more expensive.
- Whisky:

Scotch whisky: Prices in the lower segment are between 6.45 USD, (Old Smuggler), and 10.32 USD, (Black&White, Teacher's, Passport, Grant's, 100 Pipers). In a higher price segment of over 12.90 USD are brands like Johnnie Walker, J&B, Dimple, Chivas Regal.

Irish whisky: Brands like Tullamore Dew, Jameson, Bushmills are offered at prices between 12.90 USD and 16.13 USD.

Canadian whisky: The most popular brands are Club Canadian Special Old and Canadian Mist, and are offered at an average price of 10.00 USD. In the same category is Seagram's 7 Crown.

Malt whisky: Brands Glenfiddich, Laphroaid, Famous Grouse, Cardhu are in a high price category over 25.80 USD.

American whisky/Bourbon: The popular bourbon brands – Jim Beam, Wild Turkey, Four Roses - are at wholesale prices of about 12.90 USD. Jack Daniel's and Maker's Mark are offered at the average price of 18.06 USD. Higher price level: brands such as Knob Creek Bourbon, Baker's Bourbon, Booker's Bourbon – from 38.71 USD to 77.42 USD.

Bourbon bottled in Bulgaria: Savoy Club bourbon is at a wholesale price of about 7.00 USD.

Bulgarian whisky: Savoy Club and Bonidex are at prices between 2.58 and 3.23 USD. Wild Goat has the price of 5.16 USD.

Recent retail prices in USD per 0.70 liter bottle (November, 2004)

Brand	Price
Whisky	
Johnnie Walker	13.7
J&B	13.7
White Horse	13.8
Bell's	13.8
Black&White	10.4
Dimple	31.2
VAT 69	5.6
Teacher's	10.5
Ballantine's	13.6
Old Smuggler	7.4
Passport	11.4
Chivas Regal	29.2
Grant's	12.0
Dewar's	14.3
Tullamore Dew	14.2
Jameson	16.1
Seagram's 7 Crown	5.1
Laphroaig	31.3
Jim Beam	14.6
Jack Daniel's	19.8
Maker's Mark	19.4
Early Times	11.0
Vodka	
Smirnoff	9.8
Finlandia	8.9

Absolut	10.5
Russian Standard	13.0
Sobieski	7.2
Source: Noema research	

Prices in the HRI sector vary according to the category of the outlet. On average, they are two to three times higher compared to products' wholesale prices. The overhead of imported brands is higher compared to the Bulgarian ones. The imported brands are considered by the HRI outlets as bringing lower turnover, thus there is an effort for a higher margin. However, high-end food service outlets report much better sales both in volume and in value of imported distilled spirits, compared to locally made.

Imports

Import Requirements

Import requirements are defined in the Law of Wine and Spirits. Imported products should meet the requirements for production in the country of origin, which is proved by a "Testimonial and an Analysis Certificate" issued by the official authorities in the country of origin.

Import Duties and Trade Agreements

Tariff Code conventional (WTO bound rate) and autonomous duties (actually applied) in 2005

Tariff (HS#) number	Description	Conventional duties	Autonomous duties
2208 20	Distilled spirits made from wine and rape/marc	128 min 1 €/ %vol/hl + 6.4 €/hl	40 min 0.33 €/ %vol/hl + 2.1 €/hl
2208 30	Whisky	20 min 1.68 €/ %vol/hl + 4.6 €/hl	20 min 1.68 €/ %vol/hl + 4.6 €/hl
2208 40	Rum and Tafia	40 min 0.9 €/ %vol/hl + 3.2€/hl	40 min 0.9 €/ %vol/hl + 3.2 €/hl
2208 50	Gin and Juniper drink	40 min 0.8 €/ %vol/hl + 3.2 €/hl	40 min 0.8 €/ %vol/hl + 3.2 €/hl
2208 60	Vodka	20 min 0.8 €/ %vol/hl + 3.2 €/hl	20 min 0.8 €/ %vol/hl + 3.2 €/hl
2208 70	Liqueurs	40 min 0.75 €/ %vol/hl + 4.5 €/hl	40 min 0.75 €/ %vol/hl + 4.5 €/hl
2208 90	Others	40 min 0.75 €/ %vol/hl + 4.5 €/hl	40 min 0.75 €/ %vol/hl + 4.5 €/hl
Source: 2005 Tariff Code			

EU trade agreement: Since 2001, a trade concession agreement between EU and Bulgaria about some types of wine and distilled spirits have been in force. This agreement does not include exports from Bulgaria to the EU.

2005 Import duties as per Bulgaria-EU wine and spirits trade agreement

Tariff (HS#) number	Description	Annual amount (hl.)	Import duty
220820 12-13-14- 26-27	Distilled spirits from wine, rape/marc in vessels up to 2 l.	Unlimited	15% ad valorem (min.0,13 ? /%vol/hl+0,79 ? /hl)
220820 40-62-64- 86-87089	Distilled spirits from wine, rape/marc in vessels up to 2 l.	Unlimited	40% ad valorem (min.0,33 ? /%vol/hl+2,15 ? /hl)
220830 11-32-52- 72-82	Whisky in vessels up to 2 l.	Unlimited	15% ad valorem (min.1,26 ? /%vol/hl+3.45 ? /hl)
220830 19-38-58- 78-88	Whisky in vessels up to 2 l.	Unlimited	20% ad valorem (min.1,68 ? /%vol/hl+4.60 ? /hl)
220840 11-31-39	Rum and Tafia in vessels up to 2 l.	Unlimited	20% ad valorem (min.0,45 ? /%vol/hl+1,6 ? /hl)
220840 51-91-99	Rum and Tafia in vessels up to 2 l.	Unlimited	40% ad valorem (min.0,90 ? /%vol/hl+3,2 ? /hl)
220850 11-19	Gin in vessels up to 2 l.	Unlimited	20% ad valorem (min.0,40 ? /%vol/hl+1,6 ? /hl)
220850 19	Gin in vessels up to 2 l.	Unlimited	40% ad valorem (min.0,80 ? /%vol/hl+3,2 ? /hl)
220850 99	Gin in vessels up to 2 l.	Unlimited	40% ad valorem (min.1,00 ? /%vol/hl+6.40 ? /hl)
220860	Vodka in vessels up to 2 l.	Unlimited	From 15% min 0.60 Euro/%vol/hl + 2.40 Euro/hl to 20% min 0.80 Euro/%vol/hl + 3.20 Euro/hl

Source: 2005 Tariff Code

CEFTA agreement: Bulgaria is a member of the Central Europe Free Trade Agreement. According to the signed agreements, trade in agricultural products (including distilled spirits) between countries is subject of preferential duties. As of today, only Romania, Croatia and Bulgaria are members of this agreement which will disappear by 2007. In 2005, Romania has no preferences in distilled spirits imports. Croatia has a quota of 500 hl (HS#2208) at 50% reduction in the import duty.

Bilateral Free Trade Agreements: As of 2005, Bulgaria has the following such agreements: Turkey, Macedonia, Israel, Montenegro, Serbia and Montenegro, Moldova, Bosnia and Herzegovina (no preferences in distilled spirits trade for all these countries); and Albania (HS# 2208 20 12 0- 150 hl at 0% and HS#2208 20 29 0 – 200 hl at 0%)

Tariff Rate Quotas

Autonomous Tariff Quotas in 2005: In 2005, the GOB introduced duty free imports for HS#2208 30 38 0 (barley distillate for production of malts whiskey); HS#2208 30 58 0 (same for production of blendet whisky), and HS#2208 30 78 0 (grain distillate for production of whiskey).

WTO (GATT, 1994) Tariff Rate Quotas in 2005

Tariff Number	Description	TRQ	Duty in %
2208 20	Distilled spirits form wine or rape/marc	13,600 hl	40%
2208 40	Rum and tafia	40 hl	40% min 42 Euro/hl
2208 50	Jin	30 hl	40% min 36 Euro/hl
2208 90 54 0, 2208 90 56 1	Tequila	1,020 hl	40% min 20 Euro/hl
2208 90	Other distilled spirits	5,100 hl	40% min 20 Euro/hl

Structure and trends

The volume of imported distilled spirits is relatively stable in the period 2000-2002. It kept the level of 3,000 MT annually. In 2003, imports grew by 10 percent. In 2004, imports grew by another 33 percent. The highest was the growth for whiskey, 36 percent; and vodka, 39 percent. The increase for liqueur was seven-and-a-half fold over 2003 but comparable to imports in 2000-2002. If this trend is stabilized, it is likely that total imports in 2005 may reach 5,000 MT.

Imports of distilled spirits (HS# 2208) in MT

Types of distilled spirits	2000	2001	2002	2003	2004
Whisky	1 396	1 592	1 628	1 483	2 012
Vodka	964	1 006	927	916	1 271
Gin	96	69	92	64	73
Brandy	178	61	51	62	61
Liqueur	179	147	178	31	233
Rum	60	38	49	74	76
Other drinks	188	139	161	683	670
Total	3 061	3 052	3 087	3 453	4 594

Total import market is estimated by the legitimate importers at 350 thousand standard cardboard boxes (9.0 liters per a box) as of October 2004. According to market players about 170 thousand boxes (48 percent) is the whisky share, about 140 thousand boxes (40 percent) is the vodka share, and about 30 thousand boxes (8.5 percent) – other types of spirits, like liqueurs, metaxa, gin, etc. Rum imports (mostly Baccardi brand) are about 4 thousand boxes (1.1 percent).

According to final statistical import data for 2004, the share of whiskey in total imports was 44 percent; vodka share was 28 percent; and liqueur accounted for 5 percent.

Among foreign producers, a leader is Allied Domecq with 90 to 100 thousand standard boxes of distilled spirits a year (for the last 5 years). Diageo ranks second in the market share (between 60 and 80 thousand boxes). Pernod Ricard ranks third with a market share of about 40 thousand boxes.

Market of imported distilled spirits is dominated by whisky and vodka. In 2003-2004, whisky and vodka were 70 to 80 percent in total imports. Whisky share in imports was the highest in 2001 and 2002, when it reached 52 percent in total imports. The share of vodka in the last three years has decreased due to the increased substitution with Bulgarian vodka brands. The growth in vodka imports in 2004 compared to 2003 was due to increased demand for brands such as Sobieski (from Poland), Russian Standard (Russia) and increasing popularity of Finlandia (from Finlandia), see Table #11.

In general, imports of the highest quality/price distilled spirits are estimated at 5 percent of total distilled imports .

Imports of vodka (HS# 2208 60) in MT and USD

	2000	2001	2002	2003	2004
Tones	964	1006	927	916	1 271
USD	2 562 982	2 541 223	2 150 318	2 020 641	3 257 912

Imports of vodka (HS# 2208 60) by countries in MT

Country	2000	2001	2002	2003	2004
Finland	322	370	338	205	344
Russia	93	136	77	35	95
Poland	31	103	139	313	469
Great Britain	308	108	103	40	82
USA	62	4	1	2	6
Total	3 061	3 052	3 087	3 453	1 271

According to market players, the most popular vodka brand is Finlandia with about 40 thousand standard cardboard boxes. Recently (2004), Sobieski brand– due to intensive communication and promotion – over passed the volumes of Finlandia with about 45 thousand standard cardboard boxes. Next comes Absolut with about 17 thousand boxes, Smirnoff with about 10 thousand boxes, and all Russian brands with about 10 thousand boxes. Russian Standard is the brand that quickly became trendy in the capital among younger consumers in 2004.

Imports of whisky (HS# 2208 30) in MT and USD

	2000	2001	2002	2003	2004
Tones	1 396	1 593	1 628	1 483	2 012
USD	5 661 808	6 236 343	7 434 150	7 463 103	11 448 775

Imports of whisky (HS# 2208 30) by countries in MT

Country	2000	2001	2002	2003	2004
Great Britain	1 034	1 165	1 227	526	1 273
USA	247	180	166	76	286
Ireland	21	50	129	n/a	295
Canada	66	83	60	14	55
Netherlands					93
Total	1 396	1 593	1 628	1 483	2 012

Major importers estimate whisky imports at about 140 thousand standard cardboard boxes, of which 25 to 30 thousand boxes are American brands. Jack Daniel's and Jim Beam imports consist of about 15 thousand boxes each, according to the opinion of leading authorized importing and distribution companies. About 95 percent of all distilled spirits imported from the United States is whisky throughout all years observed.

The Irish brands were very fashionable on the market in the last 2-3 years. Tullamore Dew was the first such brand (22 standard boxes in 2002, and over 30 boxes in 2003). Today, this brand share is slightly decreasing at the expense of Jameson, Paddy and Bushmills. Canadian whisky has a relatively low market share of about 5 thousand standard cardboard boxes (2004).

Based on the official statistical import data for 2004, the highest market share is for UK with 63 percent. The U.S. and Ireland account for about 15 percent in imports each.

Imports of distilled spirits from EU and USA in USD

Country	2000	2001	2002	2003	2004
EU	7 953 411	8 363 274	9 251 604	9 351 547	15 529 882
USA	1 318 628	894 842	1 118 538	548 491	1 176 093
Total	9 784 286	9 938 038	11 118 511	11 784 357	18 232 165

In 2004, U.S. imports of distilled spirits were double higher at \$ 1.176 million compared to 2003; this represents 6.4 percent of total distilled spirits imports. The U.S. imports growth exceeds the total imports increase (55 percent). In 2003, U.S. imports were \$0.5 million, or 2.5 percent of total value of imported distilled spirits. In 2000, U.S. share in total imports was 11 percent. The temporary decrease (2001-2003) was due to the trade agreement concluded in the meantime between Bulgaria and the EU which granted better import duties and terms for European origin distilled spirits. However, in 2004, market demand was strong enough to stimulate higher imports of U.S. distilled spirits despite unfavourable trade regime.

Exports

Bulgaria exports both distilled spirits and raw materials, like plum distillate. Exports of distilled spirits have been increasing over the 5 years period prior to 2003. In 2004, exports declined 46 percent in volume and about 40 percent in value, compared to 2003.

The major reason for this reduction in exports is undergoing restructuring of the industry which requires high investment in upgrading and modernization of facilities, and more resources for introduction of food safety and quality standards. This investment is done to meet the EU requirements. The major challenge is that separate facilities should be built for distilled spirits production and for wine.

Exports of distilled spirits in MT and USD

Measure	2000	2001	2002	2003	2004
Tones	2 596	2 752	3 363	5 478	2 534
USD	3 539 601	2 953 662	4 002 730	7 176 563	4 391 358

The average export price is considered low. However, it has been increasing in 2001-2004 to reach \$173/MT in 2004.

Exports are dominated by brandy with about 80 percent in the total exports. In 2004, exported brandy value was \$2.81 million or 63 percent share.

Major export markets in 2004 were Poland, Ukraine, Estonia and Kazakhstan.

Exports to the United States are small. In 2004, exports were \$157,000 or 3.5 percent of total Bulgarian exports; in 2003, exports to the U.S. were 2 percent in total exports (\$313,544).

Brandy (rakia) dominates in export since major consumers of this product are ethnic markets in the U.S. In 2002, Rakia had the largest share in exports (about 40 percent), followed by vodka (about 19 percent); in 2003, the two products had almost equal shares of about 20 percent each; in 2004, rakia share in exports to the U.S. was 76 percent.

Advantages and Challenges to the U.S. Distilled Spirits in Bulgaria

Existing trade agreements between Bulgaria and the EU result in better positioning of European products on the Bulgarian market in terms of prices. This is considered as one of the main challenges facing the U.S. products. After Bulgaria becomes an EU member, imports from EU will be duty free.

Other specific feature of the U.S. products, is rather unusual or unknown taste of some types or brands of U.S. distilled spirits, which not always fits to local consumer preferences. For some consumers, this is a barrier apart from the price.

Advantages and challenges facing U.S. distilled spirits in Bulgaria

Advantages	Challenges
High image of American products in Bulgaria	Low purchasing power of the average Bulgarian consumer who is forced to buy less expensive distilled spirits.

Relatively lower quality of domestic products on average, i.e. weak competition from local brands	Large amount of consumed distilled spirits are homemade.
U.S. brand awareness on the Bulgarian market and especially among the youths	Still significant share of illegally produced distilled spirits.
Increasing purchasing power of consumers.	Lack of adequate state control on distilled spirits production and distribution (including IPR issues).
The Bulgarian enterprises still do not have sufficient marketing funds	Increase in quality of domestic products, due to competition and partly due to new EU regulations.
No governmental subsidies for the Bulgarian distilled spirits producers	Preferences in imports for a number of imported products originating from the EU countries.

Distribution and Marketing

As of today, both retail and food service sectors outlets increased their requirements to distilled spirits in order to compete more successfully on the base of quality and brands.

Spirits are offered in practically all food retail and service outlets, which are about 100 thousand through out the country. About 40 percent of both imported and local spirits are offered at hypermarket/supermarket chains.

Supermarkets are the usual outlet for shopping of distilled spirits for both households and small HRI outlets. They are the preferred source for shopping due to lower prices and better choice. The best variety of brands is available at both supermarket outlets and specialized alcohol retail outlets. The largest number of specialized alcoholic retail outlets is found in Sofia (about 620).

Neighborhood mini-markets and groceries are typical retail outlet for shopping for home consumption.

Promotion and Advertisement

Direct advertising of distilled spirits has been banned recently (end-2004) by the Health Law. The Hygienic Epidemiological Institute and the Council for Electronic Media should observe the law enforcement. At the beginning of 2005, companies were to change products' and brands' presentations (advertising). They are not allowed to show drinks and drinking in their commercials. Indirect advertisement of distilled spirits should not be aired before 10 p.m. on the TV channels. Experts consider that these restrictions would negatively affect launching of new brands on the market.

Until 2005, the share of advertising (cost of commercials) of distilled spirits, wine and beer amounted at 10 - 15 percent of all annual advertising revenue (above 17 million USD). Most large distilled spirits producers invest between 1 and 2 percent of their annual revenue in advertising.

Distribution

Distilled spirits traders have different distribution policy. Most local manufacturers established own network of trade representatives throughout the country who work with both wholesale and retail outlets. For example, Allied Domecq works with 10-15 wholesale companies. Diageo established an exclusive representative for both imports and distribution, the company Avendi. Belvedere has registered a company in Bulgaria that is an exclusive importer of Belvedere Group's products. Pernod Ricard have opened their representative office and have hired "Interbrand" company for imports and distribution.

Top distribution companies annual sales in thousand USD

Company	2001	2003
Avendi	1 905	16 431
Interbrands	15 698	n/a
Maxxium	n/a	8 994
Maik – 98	3 901	7 505
Top drinks	n/a	9 549
Pop commerce	16 256	15 237
Sandrini – A	5 895	5 303
SofTrade	2 420	n/a
Belvedere Distribution	n/a	4 659
Valdimex-BN	18 705	10 267
Allied Domecq	12 471	13 735
Leopard Trading	12 399	n/a
Transimport	4 155	6 115
Zagato	4 489	5 357
Source: Noema research		